



2002

Schedule 1040C-ME

020081300

Worksheet for Composite Filing of Maine Income Tax for Nonresident Owners

(Attach this worksheet to the composite return filed on Form 1040ME.

For purposes of this worksheet, the term "owner" refers to a partner or shareholder in a passthrough entity)

For tax period 1/1/02 - 12/31/02, or:	
0 2 TO	
Entity Name	Federal ID No.
Contact Person: First Name	MI Last Name
Phone Number	
Number of participating owners	
Total number of owners of the entity	
1. Maine apportionment factor (Form 1065ME/1120S-ME, line 4d) 1. .	
2. Entity Income or loss (Form 1065ME/1120S-ME, line 4e) 2. .00	
3. Income or loss apportioned to Maine (Form 1065ME/1120S-ME, line 4f) 3. .00	
4. Total percentage of ownership interest of participating owners (express as a decimal) 4. .	
5. Composite income or loss (Line 3 x line 4) 5. .00	
6. Tax (See instructions on reverse side) Enter this amount on Form 1040ME, line 20 6. .00	
Check this box if Method A is used to calculate tax <input type="checkbox"/>	

Maine Composite Income Tax Return Filing Instructions

Are nonresident individuals who are owners of a partnership/S corporation subject to Maine income tax?

A nonresident individual is subject to Maine income tax based on Maine-source income. All income derived from or effectively connected with the carrying on of a trade or business within Maine is Maine-source income and that income is subject to Maine tax if the business is either domiciled in Maine or has nexus with Maine. An entity has nexus with Maine if, for example, it directly or through agents maintains an office or other place of business, executes a contract, exercises or enforces contract rights, buys or sells property, or employs labor in Maine. See generally MRS Rule 808 (Business Entity Nexus). Nonresident individual owners of a partnership or S corporation do not have to be physically present in Maine to be subject to Maine tax.

Owners of partnerships/S corporations who are not Maine residents are subject to Maine income tax on that portion of their distributive share of partnership/S corporation income apportionable to Maine based on property, payroll, and sales of the partnership/S corporation. The minimum taxability thresholds in 36 M.R.S.A. § 5142(8)(B)

and MRS Rule 806.1.B do not apply to the Maine income earned by the partnership/S corporation or to the distributive share of that income to nonresident partners/shareholders. Partners/shareholders who are Maine residents are liable for Maine income tax on their entire distributive share of partnership/S corporation income.

Who may file a composite return?

A partnership/S corporation may elect to report and pay Maine income taxes on behalf of its nonresident partners/shareholders on a composite (block-filing) basis. This method relieves nonresident partners/shareholders of the obligation to each file individual Maine income tax returns based solely on the entity income of the partnership/S corporation, but does not relieve the individual nonresident partners/shareholders of the responsibility for accurate and timely reporting and payment of taxes.

Who may be included in a composite return?

A partnership/S corporation may file a composite return on behalf of its partners or shareholders who are eligible persons and who elect to participate in the composite filing. An "eligible person" is a

Maine Composite Income Tax Return Filing Instructions (continued)

nonresident individual for the entire taxable year who has *no Maine-source income other than entity income*. Resident partners/shareholders may not participate in a composite filing. Also, an individual may not participate in a composite filing if he or she files married joint for federal income tax purposes and the individual's spouse has Maine-source income unrelated to the entity. A nonresident ESBT or grantor trust may also be an eligible person if the trust has no other Maine-source income other than entity income.

How do I file a composite return?

Step 1: Complete Schedule 1040C-ME and Schedule NRC. Enclose the completed schedules with Form 1040ME completed in accordance with Step 2 below.

Use either Method A or Method B to calculate the tax for line 6.

Method A. This method requires a pro forma Maine income tax return (Form 1040ME) for each participating owner. Attach a schedule listing the name and social security number of each participating owner, individual ownership interest, federal adjusted gross income, income modifications, deductions, exemptions, taxable income, income tax, credits, and net tax. Enter the aggregate net tax amount on Schedule 1040C-ME, line 6 and on the composite return, Form 1040ME, line 20.

Method B. Multiply the income reported on line 5 by 8.5% (0.085). Enter this amount on Schedule 1040C-ME, line 6 and on the composite return, Form 1040ME, line 20.

For further guidance, *see* MRS Rule 805.

Step 2: Complete Form 1040ME as follows:

For Tax Period. If other than calendar year 2002, enter beginning and end dates for the year.

Your Social Security Number. Enter the entity EIN in a social security number format. Enter the entity name under **Your Last Name**.

Work Phone Number. Contact person phone number.

Home Mailing Address. Complete mailing address of the business entity.

Filing Status. Check Single.

Residency Status. Check nonresident.

Line 14. If Method B was used to calculate Schedule 1040C-ME, line 6, enter composite income from Schedule 1040C-ME, line 5. If Method A was used to calculate Schedule 1040C-ME, line 6, enter the aggregate taxable income/loss of participating eligible persons.

Line 19. Enter the same amount as entered on line 14.

Line 20: Enter the amount from Schedule 1040C-ME, line 6

Line 23. Enter the same amount as entered on line 20.

Line 24. Use Maine Schedule A to calculate any **business credit**

the entity may be eligible to claim. The total entered on Schedule A, line 25 may not exceed the total credit amount multiplied by Schedule 1040C-ME, line 4. Also, the amount entered on Form 1040ME, line 24 cannot exceed Form 1040ME, line 23. Attach a copy of Schedule A to the return. See MRS Rule 805.05 for more information.

Line 26. Enter the net of lines 23 and 24.

Line 27. Enter amount from line 26.

Lines 28a-d. If the participating individuals have 1099s with Maine withholding, then enter the withheld amount on line 28a (copies of the 1099s must be attached to the return). Enter the total amount of estimated tax payments, 2001 credit carried forward, and any Real Estate Withholding tax payments on line 28b. Enter any payment made by extension on line 28c. Leave line 28d blank.

Line 29. If total payments are more than net tax, enter the amount of overpayment on this line. Skip to line 33.

Line 30. If net tax is greater than total payments, enter the amount of underpayment on this line. Skip to line 35.

Line 33. Enter the amount from line 29.

Lines 34a-b. Enter the amount to be carried forward to 2003 on line 34a. Enter any amount to be refunded on line 34b.

Lines 35a-c. Enter the amount from line 30 on line 35a. On line 35b, enter any underpayment penalty (attach Form 2210ME). Be sure to check the box if you used the annualized income installment method of calculating the underpayment of estimated tax penalty. Enter the total of lines 35a and b on line 35c.

Please **enclose with the composite return** (Form 1040ME) a copy of federal Form 1120S, all pages through schedule K, or if a partnership, federal Form 1065, all pages through the distribution of income, a copy of the Maine Worksheet for Composite Filing (1040C-ME) and Schedule NRC, Income for Nonresident Partners or Shareholders Included in Composite Return. If using Method A for calculating Schedule 1040C-ME, line 6, also enclose a complete copy of each individual partner's/shareholder's federal 1040 return and related K-1s.

Do owners of a partnership/S corporation have to pay estimated tax?

Participation in composite filing does not relieve the partner/shareholder of estimated tax requirements. If Maine income tax liability of a partner/shareholder reduced by any Maine withholding exceeds \$1,000 for the year, the taxpayer must, with a few exceptions, make quarterly estimated tax payments. See Form 1040ESW-ME for additional information on Maine estimated tax payment requirements. The entity may make payments of Maine tax for partners/shareholders whether or not the partners/shareholders are included in the composite return. If the partner/shareholder is part of a composite return, all estimated payments must be made under the EIN of the entity. To make the payment, use the Maine individual estimated tax voucher using the partnership's/S corporation's EIN in the social security number format (XXX-XX-XXXX). The composite return must show the amount of estimated tax paid.